

# Mayor's Letter



City of Chattanooga  
Office of the Mayor

City Hall 101 East 11th Street Chattanooga, Tennessee 37402

December 20, 2016



Mayor Andy Berke

## To the Citizens and City Council of the City of Chattanooga:

I am honored to present the City of Chattanooga's annual financial report for the year ended June 30, 2016. As an Administration, we focused on spreading opportunity to those in our community who have been left out of our growing prosperity. Over the past year, we have made critical investments and progress in neighborhoods, workforce development, public safety, and education. Whether it's making our streets safer or growing our local economy, the City of Chattanooga works to provide the best services to our citizens while producing real results in the priority areas that matter most to our community.

In the last three years, Chattanooga has made tremendous strides. Our unemployment rate has fallen dramatically, from 8.1 percent in May of 2013 to 4.0 percent in May of 2016, and we have experienced the third highest wage growth in the country for a mid-sized city. Downtown Chattanooga is booming and our rising home prices reflect the buying power of more citizens. Home to the first Innovation District in a mid-sized city, Chattanooga has worked to leverage our resources and maximize the impact of our burgeoning tech sector. And through initiatives like TechHire and NetBridge, we push to ensure digital equity throughout our diverse community.

While we have made our streets safer for more Chattanoogans, there is always work to do. Robberies are at a five-year low and violent crime and property crimes have fallen over the past three years. To address the all too prevalent gun violence in our streets, the City invested in technology and cameras which provide important resources to our Chattanooga Police Department's investigation unit. In partnership with our Community Police Response to Victims of Violence initiative and our Citizens Safety Coalition, we established a Witness Support Fund to help bring more criminals to justice while keeping our witnesses safe. And this past year we have made real progress on our Family Justice Center to service survivors of domestic and family violence, opened in its permanent location in the fall of 2016.

Over the last year, people and organizations from across the city have taken part in a public process called Chattanooga 2.0. Through this important initiative, we can see clearly the difficult path our kids face every day—on the streets, in our school system, and in the job market. The City of Chattanooga is committed to tackling these issues head on, specifically ensuring more of our citizens have access to early learning opportunities. From initiatives like Baby University to Head Start expansion, we have made progress, but we are ready to do more. In the year to come, the City will kick our early learning efforts into high gear with a newly established Office of Early Learning, expanded Baby University, and major investments in Pre-K scholarships.

For every Chattanooga to live the life of their choosing, we must come together as a community—non-profits, private businesses, churches, schools, leaders, government. When I reflect on the past three years, I am proud of the results we have achieved together and look forward to accomplishing even more to strengthen our city and our community.

Sincerely,

A handwritten signature in black ink that reads "Andy Berke".

Mayor Andy Berke  
City of Chattanooga



# City Council



Chip Henderson  
District 1



Jerry Mitchell  
Vice Chair  
District 2



Ken Smith  
District 3



Larry Grohn  
District 4



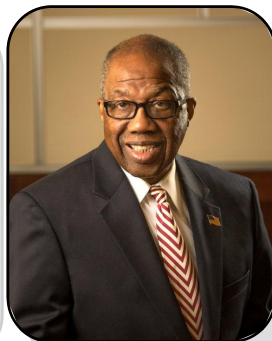
Russell Gilbert  
District 5



Carol Berz  
District 6



Chris Anderson  
District 7



Moses Freeman  
Chair  
District 8



Yusuf Hakeem  
District 9





# Letter of Transmittal



City of Chattanooga  
Department of Finance and Administration  
City Hall  
101 East 11th Street  
Chattanooga, Tennessee 37402

December 20, 2016

**To the Honorable Mayor Andy Berke, Members of the City Council and the  
Citizens of Chattanooga, Tennessee:**

State and local statutes require that the City publish annual audited financial statements for each fiscal year. This Comprehensive Annual Financial Report of the City of Chattanooga for the fiscal year ended June 30, 2016 is submitted in compliance with this requirement.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Henderson, Hutcherson & McCullough, PLLC, Certified Public Accountants, have issued an unmodified ("clean") opinion on the City of Chattanooga's financial statements for the year ended June 30, 2016. The independent auditor's report is presented as the first item in the financial section of this report.



Daisy W. Madison, City Finance Officer

The independent audit of the City's financial statements was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements. Special emphasis is placed on internal controls and legal requirements involving the administration of federal awards. These reports are in a separate Single Audit section.

Generally Accepted Accounting Principles require that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The City of Chattanooga's MD&A can be found immediately following the financial statement report of the independent auditors.





## GOVERNMENTAL STRUCTURE, ECONOMIC CONDITIONS AND MAJOR INITIATIVES

### PROFILE OF THE GOVERNMENT

Nestled in a bend of the Tennessee River and surrounded by mountains and lakes, Chattanooga is so beautiful it inspired a community quest to make it the best mid-sized city in America. Living in Chattanooga means that outdoor views and adventures are around every corner, but our city is much more than a pretty playground. Over the last four decades, we've been winning acclaim for our unique way of working together to produce national best practices for cleaning up air pollution, downtown revitalization, affordable housing, and much more.

Founded as a ferry landing and warehouse site in 1815, the City of Chattanooga was incorporated under State of Tennessee Private Acts of 1839. The City is the county seat of Hamilton County and is located near the southeastern corner of the state on the Tennessee-Georgia border. Chattanooga is centrally located in relation to other major population centers of the southeast, being within a 150-mile radius of Knoxville and Nashville, Tennessee; Birmingham, Alabama; and Atlanta, Georgia. Over 11 million people live

within a 2 to 2½ hour drive of Chattanooga. It encompasses an area of 148 square miles. Official results of the 2010 U.S. Census show a population of 167,674, a 7.8% growth since the 2000 Census. The Census Bureau data shows the city is the second-fastest growing urban area in the state, with a population estimated at 176,588. The City is empowered to levy a property tax on both real and personal property located within its boundaries. Corporate limits may be extended at the request of the property owner or by a referendum of the people in the affected areas that might want to petition to come into the city.

The City Mayor is elected at-large and is not a member of the City Council. The Council is composed of nine members, with each member being elected from one of nine districts within the geographic boundaries of the City. The Mayor and Council are elected on a non-partisan basis for four-year terms. The Mayor is the City's chief executive officer and oversees the operation of all City departments.

The City provides a full range of municipal services including but not limited to fire and police protection; sanita-





tion services and recycling; construction and maintenance of highways, streets and infrastructure; recreation and cultural activities; youth and family development; public library; community development; planning and zoning; neighborhood services; social services; and general administrative services. It also operates a water quality program, a solid waste program, communication system and a wastewater system for its residents and for other communities in southeast Tennessee and northwest Georgia. The City's Electric Power Board (EPB) provides electric and fiber-to-home services. Other services are provided through the legally separate Chattanooga Downtown Redevelopment Corporation which is reported along with EPB as an enterprise fund. Additional services are provided through the legally separate Metropolitan Airport Authority and the Chattanooga Area Regional Transportation Authority, both of which are reported separately within the City's financial statements. Additional information on all these legally separate entities can be found in the notes to the financial statements.

The annual budget serves as the foundation for the City's financial plan. In lieu of the traditional approach, the City develops its annual budget utilizing the Budgeting for Outcomes (BFO) approach. BFO is a process designed to operate a government that works better and costs less. It is based on the premise that the percentage of personal income the public is willing to pay for their government through taxes, fees, and charges is fixed. While the "price of government" is fixed, the cost of providing services is increasing. Budgeting for Outcomes focuses on results and priorities, not cost. The budget process shifts from paying for costs to buying results. It puts citizens and their priorities, not status quo, first. It emphasizes accountability, innovation, and partnerships. The City Finance Officer obtains budget offers from all City departments and agencies to address the major results areas communicated by the citizens. These results areas are safer streets, a growing economy, stronger neighborhoods, smarter students and stronger families, and high performing government. Offers are evaluated by results team's and allocations are recommended to the Mayor based on citizens' priorities and available funding. During the months of May and June, advertised public hearings are held by the Council whereby taxpayers are given the opportunity to comment prior to final passage. The budget is legally enacted through passage of an ordinance with an operative date of July 1. The appropriated budget is adopted on a departmental basis; the legal level of budgetary control is the fund level. The City Finance Officer is authorized to make intra-fund transfers if necessary. Budgetary comparison schedules are provided in the budget document for each individual governmental fund for which an appropriated annual budget has been adopted.

## FACTORS AFFECTING FINANCIAL CONDITION

The information presented in the financial statements

may be best understood when it is considered from the broader perspective of the specific economic environment within which the City of Chattanooga operates.

**The Local Economy:** The City of Chattanooga is well positioned for future growth. Employment in the Chattanooga area is diverse. The top employment sectors of trades, transportation, and utilities (20%), government (15%), manufacturing (13%), professional and business services (18%), education and health (14%), and leisure and hospitality (11%) comprise 91% of the workforce. The local unemployment rate of 5.1% for the Metropolitan Statistical Area is comparable to the state and national averages of 4.3% and 4.9% as of July, 2016, according to the U.S. Bureau of Labor Statistics. Tennessee added jobs at a faster pace than the rest of the country on average over the past year and had the third largest increase in manufacturing wages nationally.



Chattanooga enjoys strategic advantages related to its location, strong transportation system, natural resources and competitive cost of doing business. The Chattanooga area is served by three interstate highways, seven U.S. highways, two railways, airlines, bus service, and the Tennessee River system. Work on the Chickamauga Lock, a key to transportation along the Tennessee River, is resuming, with an expected project cost of \$755 million. The prior phase was completed in 2013 at a cost of \$185 million. This phase of the project will replace the existing 60 by 360 foot lock with one that is 110 by 600. Direct flights are available to eight major cities. The Airport has added 230 parking spaces to accommodate a rise in passenger traffic, which exceeded 390,000 through last December. Through July of 2016, boarding's are up 2.5% over 2015. A newly recruited air maintenance company which currently employs 35 people could eventually expand to a total of 250 employees as it continues to expand. Chattanooga is home to three major air cargo facilities, three public use port terminals, and four major industrial parks. Railway service is provided by four divisions of the Norfolk Southern Railway System and two divisions of the CSX Transportation System, all with switching service throughout the entire area. Modern "piggyback" service is provided by both lines.



Employment in the retail service sector continues to thrive. Hamilton Place Mall, which is in its 30<sup>th</sup> year of operation, anchors the area's I-75 retail corridor. A \$100 million expansion of retail and residential development is in the planning stages just north of the mall. Early plans for the development known as Waterside could include 350,000 square feet of retail space, restaurants, and up to 300 apartments in this mixed use development encompassing over 60 acres. The Hixson area at the north end of Highway 153 is also enjoying a resurgence of activity. Just north of the current retail area, developers have announced plans for Hillocks Farm, a mixed use retail, office, and apartment project on 190 acres. Each of these developments is expected to be valued at more than \$100 million.

Downtown is thriving. The first two phases of \$100 million housing and commercial project on the west side of downtown along the river have sold out and the third phase is available. An additional section valued at up to \$100 million may be added. A new \$19 million hotel, with 140 rooms, opened in December, 2015. The "Gold Building", former headquarters of Blue Cross Blue Shield of Tennessee, is being converted into a 254 room hotel which will include a ballroom and meeting rooms. In the core of downtown, construction is well under way on a 10-story building in the 700 block of Market Street. The \$30 million development will include retail, office, and 125 apartments. Construction is also underway in the McClelland Building on Broad Street, converting the historic structure, a landmark since 1924, into apartments with commercial space on the ground floor. Renovation of the First Tennessee Bank Building on Market Street will bring apartments to that building as well. The value of these two projects is expected to exceed \$25 million. Many other large projects under way or in the planning stages will bring continued transformation to the core of Chattanooga.

Chattanooga continues to receive recognition as a world leader in technology. EPB was recognized in June by The Nation magazine for its one-gigabit per second internet service. Additionally BBC World Service produced a feature called "Chattanooga – the High Speed City" touting the advantages the service has provided to the area and its citizens. Offered since 2010, Chattanooga became the first city to provide a ten-gigabit connection to all 170,000 homes in its service area beginning in 2015. The Fiber-to-the-Home network is available to individuals, schools, and businesses in a service area covering 600 square miles including urban, suburban, and rural places and a diverse population of 300,000 people. There are currently over 82,000 customers. The system is integrated with Smart Grid, a technology which allows remote monitoring of meters for every customer. A \$111 million federal stimulus grant from the Department of Energy in 2010 dramatically accelerated the installation in 2012 of the Smart Grid, allowing for an implementation schedule to taking only two years. A wireless mesh network is piggybacked onto the entire system, enhancing public safety. In 2016, EPB invested \$320 million to add 4K ultra high definition TV service, the first in the area.

The establishment of NoogaNet in city-owned spaces and buildings takes advantage of the 10-gig Wi-Fi at 30 locations; expansion plans include 11 additional locations.



The economic impact of the EPB fiber optic network has approached \$1 billion since its inception according to a study published in 2015 by the University of Tennessee at Chattanooga, with an estimated creation of 2800 jobs. The Oak Ridge National Laboratory is locating an office at EPB to take advantage of the network. Potentially lead to a permanent presence for the U.S. Department of Energy. The high-speed internet continues to attract competition and international visitors. GigTank, hosted in Chattanooga by The Company Lab (CO.LAB), is in its fifth year. The availability of technology helped foster "Startup Week Chattanooga" which held its third annual week-long workshop in October to provide a networking venue for internet entrepreneurs.

Manufacturing continues the resurgence that began in 2008 with the announcement that Volkswagen AG would locate its United States manufacturing headquarters in Chattanooga. Since that time, the area has attracted \$4 billion in foreign direct investment. The Enterprise South Industrial Park (ESIP), home to Volkswagen AG, hosts numerous companies associated with automobile manufacturing, as well as an Amazon distribution center. The 3000 acre industrial site has essentially been filled or committed for potential expansion of the VW plant which will house the new SUV designed and built specifically for the U.S. market. As commencement of production approaches, the recruitment process has begun for up to 2000 additional jobs at the plant. The \$900 million expansion includes \$600 million by VW, \$230 million from state and local government, and up to \$70 million in additional incentives and infrastructure improvements over the next decade. The City and County share equally a \$52.5 million direct investment in this expansion. VW retains an option on 900 additional acres adjacent to their 1300 acre facility, in anticipation of significant additional future expansion. Spanish supplier Gestamp, a world leader in hot-stamp technology and a Tier 1 supplier for VW, BMW, and Mercedes-Benz, has embarked on a \$180 million expansion of its existing facility as well as a second plant on site and a third location in an existing building near the park on Jersey Pike. The company, which already had a significant presence as a supplier of cold-stamped components, says the expansions will create an additional 510 jobs over the next two





years. The City and County have begun to develop 250 acres within the park for additional automotive suppliers.

Chattanooga is one of the leading areas in the state for business start-ups. Large announcements get the headlines, but small business growth can make up the bulk of our job growth and diversity. Our success in this regard is driven by technology, capital venture funding, business incubators, and a City initiative which will award a total of \$100,000 in grants to small companies. This initiative, called the “Innovation District”, is designed to connect entrepreneurs who have creative ideas with existing businesses to jump start new successful companies. Chattanooga again ranked as the least expensive city for business start-ups by SmartAssets when compared to the 80 largest cities in the country. Venture capital funding of local business is setting new records for the area in 2016.

Retention and growth of existing business is as important as attracting new industry. TAG Manufacturing is one example. The maker of attachments for heavy equipment announced a \$15 million expansion at its ESIP location, adding 200 jobs and a 200,000 square foot facility to be built on 19 acres it recently acquired. Another manufacturer that announced expansion is Astec Inc., adding 25,000 square feet and 40 jobs.

The fourth phase of the Chattanooga Chamber of Commerce “Chattanooga Can Do” campaign, conducted from July 2015 – June 2019, set goals for job growth. These four year goal includes the following benchmarks with progress as of June 2016, the first of four years:

	<u>4 Year</u>	<u>Actual</u>
<u>Goal to increase</u>	<u>Target</u>	<u>(1 year)</u>
Regional Employment	15,121	2,563
Private Investment	\$500 M	\$247 M
Payroll	\$439 M	\$118 M

Quality education is also the centerpiece of a successful community. A study released in 2015 by the Manhattan Institute shows the number of adults age 25 and over in the Chattanooga MSA with a bachelor’s degree or higher has increased over 40% since 2000. Chattanooga State Technical Community College maintains five training partnerships with local manufacturers or groups to provide industry-specific training to students, allowing flexibility so programs can be tailored to current needs. This approach to educational and training support to industry will serve to attract additional new manufacturing and technical jobs to the area. The Hamilton County Public School System has established a school for Science, Technology, Engineering and Math (STEM), located on the Chattanooga State campus, which provides coursework based in hands-on training and offers internships or apprentice-

ships to the students.

Downtown remains a popular tourist destination, anchored by the Tennessee River and the Tennessee Aquarium. Hotel tax receipts within the city are up 33% over the last five years. Among national events which took place over the past year were Ironman, the Head of the Hooch rowing competition and the USA Cycling pro championships. These and a host of regional tournaments, outdoor events, and recreational activities, bring millions to the local economy and help keep Chattanooga in the forefront. Locally organized events such as the Chattanooga Track Club’s 25<sup>th</sup> triathlon remain popular as well.

Outdoor activity is offered in abundance. The newest section of the Tennessee Riverwalk system opened, adding three miles of pathway connecting the downtown to the St. Elmo district to the south. The Where to Retire magazine ranks the city among the eight best to cycle. The Kiplinger newsletter highlighted Chattanooga as one of the best areas to retire, citing outdoor activities and low cost of housing.

The fiscal health of Chattanooga City Government remains strong. As outlined in the Management’s Discussion and Analysis on page iii, the City has maintained a healthy financial position through sound fiscal management. Standard and Poor’s and Fitch Ratings Services has assigned the City a AAA and AA+ bond rating respectively.



**Long-term financial planning:** The City takes a long range approach to capital spending by the adoption of a five year capital plan. As part of this strategic plan, the administration has restructured operations to include a department of economic and community development and hired a capital planner to focus intensely on long term sustainability and economic growth. The City continues to explore growth opportunities through economic development, regional growth plans, and other strategic initiatives that involve all citizens.

The City began its Budgeting for Outcomes approach to budget preparation and management in the Fiscal Year 2014



budget. This approach, in its third year with the Fiscal Year 2016 budget, is designed to measure results against goals and benchmarks used in determining funding levels for all city operations. It provides accountability by requiring regular review and monitoring of departmental performance by the Mayor, the City Finance Officer and other senior City officials. The City's annual performance report to the citizens of Chattanooga gives residents an update on how city services are responding to their needs. An Open Data portal was implemented in 2015 to improve transparency and promote citizen engagement. It includes up to date budget and spending data on the City's website.

**Relevant financial policies:** The City Council has adopted a Debt Management Policy which guides current and future decisions related to debt issued by the City. Performance is measured against benchmarks set forth and changes are made

as needed to meet the desired goals. The City Council has also adopted a Pension Funding Policy in compliance with State of Tennessee Law.

**Major initiatives:** Over five (5.8) square miles have been annexed since May, 2001. Chattanooga is a major participant in a 40-year regional growth plan, known as the Greater Chattanooga Regional Growth Initiative, or "Thrive 2055". The participants include sixteen counties and their major cities from southeast Tennessee, northwest Georgia, and northeast Alabama, including the three metropolitan statistical areas. This public-private initiative is a pioneering effort for a new kind of long-term regional plan. It is a continuation of the type of public visioning and community engagement that has transformed Chattanooga and the surrounding area over the past 30 years.





# Awards and Acknowledgments

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City of Chattanooga, Tennessee for its comprehensive annual financial report for the fiscal year ended June 30, 2015. This was the twenty-fourth consecutive year that the City has received this award. The Certificate of Achievement is a prestigious national award, recognizing conformance with the highest standards for preparation of state and local government financial reports.

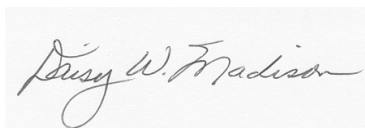
In order to be awarded a Certificate of Achievement, a government unit must publish an easily readable and efficiently organized comprehensive annual financial report, whose contents conform to program standards. Such reports must satisfy both Generally Accepted Accounting Principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement program requirements, and we are submitting it to GFOA to determine its eligibility for another certificate.

The City also received the GFOA Award for Distinguished Budget Presentation for its annual appropriated budget for each of the twenty fiscal years for which it applied. In order to qualify for the Distinguished Budget Presentation Award, the City's budget document was judged to be proficient in several categories including policy documentation, financial planning and organization.

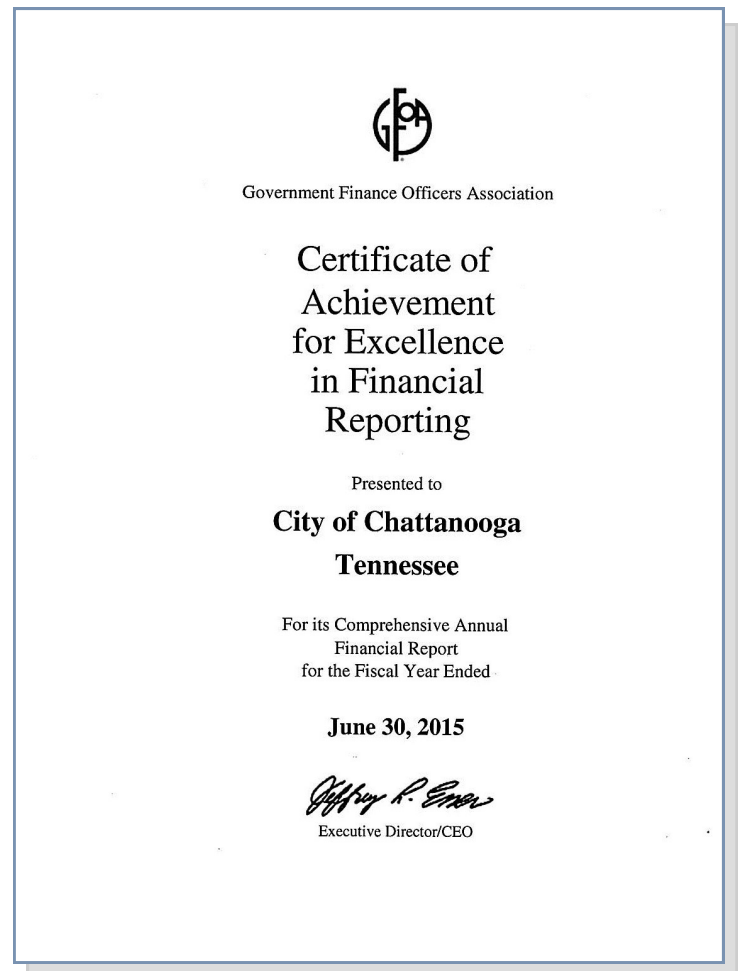
The GFOA Award for Outstanding Achievement in Popular Annual Financial Reporting was received for the fiscal year ended June 30, 2015. This is the fifth consecutive year for which the City applied for the award. In order to qualify, a government must publish a Popular Annual Financial Report with contents that conform to program standards of creativity, presentation, understandability, and reader appeal.

The preparation of this report could not have been accomplished without the professional and dedicated services of the entire staff of the Finance Department and the City's independent public accountants, Henderson, Hutcherson & McCullough PLLC. We would like to express our appreciation to members of various City departments who assisted and contributed to the preparation of this report. Further appreciation is extended to the Mayor and the City Council for their interest and support in planning and conducting the financial affairs of the City in a responsible and progressive manner.

Respectfully submitted,



Daisy W. Madison  
City Finance Officer



# City Officials as of June 30, 2016



## EXECUTIVE BRANCH:

**Andy Berke, Mayor**

Stacy Richardson, Chief of Staff

Maura Sullivan, Chief Operating Officer

## CITY COUNCIL:

Moses Freeman, Chair.....District 8

Jerry Mitchell, Vice Chair.....District 2

Russell Gilbert.....District 5

Chip Henderson.....District 1

Carol Berz.....District 6

Ken Smith.....District 3

Chris Anderson.....District 7

Larry Grohn.....District 4

Yusuf Hakeem.....District 9

## COURTS:

Sherry B. Paty.....City Court Judge

Russell J. Bean.....City Court Judge

Ron Swafford.....City Court Clerk

## DEPARTMENT ADMINISTRATORS

Legal..... Wade Hinton.....City Attorney

Legislative..... Nicole Gwyn.....Clerk of Council

Finance and Administration..... Daisy W. Madison.....Administrator

Vickie C. Haley.....Deputy Administrator

Fire..... Chief Chris Adams.....Administrator

Economic and ..... Donna Williams.....Administrator

Community Development..... Anthony Sammons.....Deputy Administrator

Police..... Chief Fred Fletcher.....Administrator

Public Works..... Justin Holland.....Administrator

Youth and Family Development..... Lurone Jennings.....Administrator

Transportation..... Blythe Bailey.....Administrator





# Organization Chart

